



State of Rhode Island and Providence Plantations

State House  
Providence, Rhode Island 02903-1196  
401-222-2080

Donald L. Carcieri  
Governor

April 20, 2006

VIA HAND DELIVERY

Mr. George Nee  
Secretary-Treasurer  
Rhode Island AFL-CIO  
194 Smith Street  
Providence, RI 02908

Dear Mr. Nee:

I am writing to give you notice that I am hereby exercising the authority set forth in Section 4.07 of the Beacon Mutual Insurance Company ("Company") Bylaws to remove you as a director of the Company for cause, as detailed below.

Removal shall be effective immediately, subject to the following:

1. I will withdraw and vacate this involuntary removal for cause if I receive your voluntary resignation as called for in my letter of Thursday, April 13, 2006 prior to close of business on Tuesday, April 25, 2006; and
2. I will suspend the effective date for a period of one week if you communicate to me in writing prior to close of business on Tuesday, April 25, 2006 that you wish an opportunity to be heard with respect to my determination of "cause". In that case, you may make arrangements for an opportunity to be heard by contacting my office.

The effective date will be suspended, if applicable, only for purposes of allowing your resignation or permitting an opportunity to be heard. I expect you to take no official Company action in the interim, unless it is consistent with my prior correspondence. Any

inappropriate action shall be grounds for your removal becoming effective immediately.

My determination that cause for removal exists is based on numerous findings of the Almond Review Committee, as detailed in their report dated April 10, 2006 ("the Almond Report"), which was commissioned by the Board and is incorporated herein by reference. Those findings demonstrate that you, as a director since 1994, and possibly other directors serving for lesser periods of time, grossly failed, on a recurring basis, your fiduciary duties to the Company, the State and the policyholders, and that such failures have risen to the level of negligence and dereliction of duty, to the detriment of the Company. These failures constitute "cause" consistent with the Company's Bylaws.

By way of example, and without limitation as to other matters set forth in the Almond Report, I base my determination on the following:

1. Negligence or Complicity in Connection with Actions of the Former Chairman of the Board, including Wrongful Treatment of the Manpower Account.

The Almond Report found, with respect to allegations against Board Chairman Sheldon Sollosy resulting in his resignation, that: "*Disturbingly, knowledge of Manpowers's refusal to disclose necessary payroll records was widespread within Beacon . . .*" and was "*in contradiction to stated corporate policies. . .*"

One of the primary responsibilities of any member of a board of directors is to monitor and manage possible conflicts or self-dealing of other members of the board. It is apparent that the Beacon board did not take even the most basic steps over a period of many years with respect to identifying or reviewing potential director misconduct. Your failure over the term of your directorship to review the pricing of policies of companies related to other directors, specifically Manpower's, constitutes gross dereliction of your duty as a director.

2. Negligent Supervision and Review of the Chief Executive Officer ("CEO") and His Activities; Participation in Establishing Excessive and Inappropriate CEO Compensation and Failure to Take Disciplinary Action.

Similarly, a basic and primary responsibility of directors is to oversee and manage the activities of the Chief Executive Officer, to establish

appropriate compensation and to take appropriate disciplinary action as necessary.

The Almond Report is replete with findings regarding the failings and misconduct of the Company CEO, from numerous incidents of unfair and discriminatory policy pricing (involving employee misclassifications and unearned and unwarranted credits) to “inappropriate relationships [that] exist between Beacon and a select group of insurance agents . . .” The CEO presided over agent “perks” that included, but were not limited to, at least two golf trips, to Pinehurst, North Carolina and Scotland, inappropriately paid for by the Company. In addition, the Almond Report found that:

- “. . . financial checks and balances that should exist . . . between the CEO and the Board were inadequate . . .”
- “. . . actions of the CEO . . . were, on occasion, contrary to the fiduciary responsibility to the policyholders . . .” and
- “. . . compensation packages . . . for Beacon management are excessive.”

Finally, managers, including the CEO, appear to have obstructed and compromised the integrity of the Review Committee work, including an instance where the CEO initially denied the existence of a so-called “VIP Preferred Policyholder List”, subsequently ordering that it be deleted from a computer. Similarly, I note that the Director of the Department of Business Regulation, by letter to you dated April 18, 2006, is of the opinion that management is also obstructing the proper handling of a regulatory “market conduct review” currently being attempted by that agency.

These findings, together with numerous others, demonstrate your gross negligence and dereliction of duty, as a board member for over a decade, to properly oversee, manage and supervise the activities of the CEO. In addition, the excessive compensation package (which includes a highly unusual golden parachute in the case of resignation) and the ongoing failure to take appropriate disciplinary steps regarding the CEO (including, but not limited to, voting in opposition to termination for cause at the most recent Board meeting) are further examples of actions by you that constitute abdications of your fiduciary duties to the Company, the State and policyholders. The Almond Report concluded that “[t]he consequence of these general findings is that Beacon was exposed to potential abuse.”

3. Recurring Negligence in Failure to Establish Appropriate Policies, Procedures and Checks and Balances with Respect to Company Operations.

The Almond Report found multiple instances where: “. . . corporate governance policies and procedures involving contracting, ethics, charitable giving, internal auditing, Board development and training were weak or non-existent.” Further that the affairs of Beacon were conducted “in a manner that was not transparent to certain members of the Board, the Department of Business Regulation and its policyholders.”

Such findings reflect a board that has become wholly dysfunctional. As a member of the board since 1994, your failure to perform the minimal fiduciary responsibilities required to establish appropriate policies, procedures and checks and balances with respect to Company operations constitutes, in my judgment, gross negligence.

Beacon is designated by statute as a nonprofit independent public corporation, created as the State Compensation Insurance Fund, which serves as the workers' compensation insurance carrier of last resort. The charter provides that Beacon's purpose is “to ensure that all employers in the State of Rhode Island have the opportunity to obtain workers' compensation insurance at the lowest possible price.” Unfortunately, I believe the board has lost sight of that vision.

For the reasons described above, you are hereby removed as a director of the Company pursuant to Section 4.07 of the Company Bylaws. Please take immediate steps to return any Company property or equipment to the Company.

Sincerely,

A handwritten signature in black ink, appearing to read "Donald L. Carcieri", with a long horizontal flourish extending to the right.

Donald L. Carcieri  
Governor

cc: A. Michael Marques, Director  
Department of Business Regulation